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JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director

DATE: June 17, 2004

SUBJECT: Educational Loan Notes

STUDENT LOAN INTEREST RATES DROP – AGAIN!

For the fourth consecutive year, student loan interest rates have dropped to their lowest point in nearly 35 years. The new reduced interest rates will benefit many students and families by making college more affordable for them. The interest rate for Stafford loans made during the upcoming 2004-2005 academic year is **2.77%** for students who are in school and **3.37%** during a borrower's repayment period.

The annual variable rate for all new Stafford and PLUS loans is based on the bond equivalent rate of 91-day Treasury Bills (T-Bill) auctioned at the end of each May. The bond equivalent rate for 91-day T-Bills auctioned on May 24, 2004, is **1.07%**.

Details of the rates for new and existing loans that become effective July 1, 2004, are attached to this issue of *Educational Loan Notes*. If you have any questions, please contact Betty Calloway at 1-800-642-5626, extension 39639, or via email at callowayb@michigan.gov.

PAT SCOTT NAMED CEO OF STUDENT FINANCIAL SERVICES

State Treasurer Jay B. Rising recently announced that Patricia W. Scott, Michigan Guaranty Agency (MGA) and Michigan Higher Education Student Loan Authority (MHESLA) Director, has accepted the position of Chief Executive Officer (CEO) of the Michigan Department of Treasury's Student Financial Services Bureau. Pat has been the Director of MGA and MHESLA since November 2002, and has been with MGA for over 13 years.

As a result of Pat's promotion, the divisions of the Bureau of Student Financial Assistance will reorganize. MGA and MHESLA will separate. Diane Todd Sprague is the new Director of MGA. Gary Harvey is the new Director of MHESLA in addition to his responsibility for the Office of Fiscal Affairs. Gary also serves as the Chief Financial Officer for the bureau. The Office of Scholarships and Grants will merge with the Office of Information and Resources and the Michigan Merit Award Program to form one office under the direction of Anne Wohlfert. This new division is called the Office of Scholarships and Grants. The Office of the Michigan Education Trust and Michigan Education Savings Program will remain under the direction of Robin McMillan.

The restructured divisions will offer both improved service and efficiencies for Michigan's schools, lenders, and students. Consolidating toll-free telephone numbers so there is one number to call for assistance for any scholarship, grant, Merit Award, or campus-based program issue is under consideration. Other improvements in services are anticipated in the near future.

Below is a table that depicts the divisions and directors prior to Pat Scott's recent appointment, followed by a table that shows the restructured divisions and directors.

(Continued on the next page.)

Previous Structure	
Bureau of Student Financial Assistance – Director, Vacant	
Division	**Director**
Michigan Guaranty Agency and Michigan Higher Education Student Loan Authority	Pat Scott
Office of Fiscal Affairs	Gary Harvey
Office of Information and Resources and the Michigan Merit Award Program	Anne Wohlfert
Office of Scholarships and Grants	Diane Todd Sprague
Michigan Education Trust and Michigan Education Savings Program	Robin McMillan

New Structure	
Bureau of Student Financial Services – Pat Scott, CEO	
Division	**Director**
Michigan Guaranty Agency	Diane Todd Sprague Spraguedt@michigan.gov 517-373-2436
Michigan Higher Education Student Loan Authority and Office of Fiscal Affairs	Gary Harvey Harveyg@michigan.gov 517-373-8623
Office of Scholarships and Grants (includes the former Office of Information and Resources and Michigan Merit Award Program)	Anne Wohlfert Wohlferta@michigan.gov 517-373-0457
Michigan Education Trust and Michigan Education Savings Program	Robin McMillan Mcmillanr@michigan.gov 517-335-4767

2004 SPRING SCHOOL WORKSHOPS

MGA sponsored Spring School Workshops in Grand Rapids and Plymouth on May 25 and 26. The workshops were well received by the 79 financial aid participants from 44 different schools that attended. Kochie Richardson, Customer Training Representative, Sallie Mae Guarantee Services, presented valuable information on:

- Policy and Regulatory Updates
- Federal Methodology
- A Closer Look at Consolidation

Grand Rapids Spring School Workshop Participants

Flora Boles, MGA School Services, presented sessions on:

- Information Security
- Bankruptcy

The information security presentation illustrated that identity theft is among the top 20 of the fastest growing crimes in the United States. This session covered tips on how to educate students and staff regarding ways to properly handle and protect bankruptcy, MGA's policies, and the timeframes that affect different types of bankruptcies.

Michele Anderson, Student Borrower Services (SBS), presented information on the role that SBS plays in MGA's default aversion strategy by contacting high-risk borrowers during their grace period. She also shared the most common borrower misunderstandings about repayment:

(Continued on the next page.)

- Difference between Federal Family Education Loan Program (FFELP) and Federal Direct Loan Program (FDLP) loans.
- Borrower returns to school after loan goes into repayment.
- Difference between forbearance and deferment.
- Borrower is in school, but attending less than half time.

Justin Draeger, MGA Customer Services, shed new light on defaulted borrowers by reviewing and outlining statistical data from MGA's 2002 cohort year. Based on that data, Justin shared several new initiatives that MGA is implementing in its continuing efforts to help schools reduce their cohort default rates. These initiatives include:

- A new exit packet designed specifically for withdrawn students that schools will be able to order from MGA and then easily mail out.
- Two new reports that schools can order from MGA that focus on a student's high debt load or academic year.
- A "Default Aversion Best Practices" symposium being planned for this fall.

Based on the positive comments we received, the workshops were educational. Notebooks covering the agenda topics are available to all schools. To order a notebook or if you have questions regarding the material covered at the workshops, contact the School Services Unit at extension 36074.

Participants at the Spring School Workshop in Plymouth

A BRIEF LOOK AT LOAN FORGIVENESS

There are a number of reasons that a student loan may be forgiven. Following is an explanation of each of the reasons for canceling student loan debt, along with the criteria that must be met in each instance.

FALSE CERTIFICATION

A student loan will be cancelled if the school falsely certified the student's eligibility for the loan. To qualify for a false certification loan cancellation, the student (or the student for whom a PLUS loan was borrowed) must have received monies from a loan disbursed on or after January 1, 1986. Following are the three types of False Certification and the specific criteria that must be met to qualify:

Ability to Benefit:

- The school admitted the student when he or she did not meet the requirements for admission, such as not having a high school diploma or GED, or
- At the time the school certified the loan, the student had a condition that prevented him or her from meeting the legal requirements for employment in the program of study.

Disqualifying Status:

- The school signed a student's name on the application and/or promissory note without their authorization, and the borrower did not receive the loan funds.

Unauthorized Signature:

- The school endorsed a student's name on the loan check or signed the authorization for electronic funds transfer or master check without their consent, and the borrower did not receive the loan funds.

If the student believes they may qualify for loan forgiveness due to false certification, they should contact MGA's Beverly Bristol at extension 39976 to request the appropriate form.

CLOSED SCHOOL

A student loan will be cancelled if a student (or a student for whom a PLUS loan was borrowed) received loan funds on or after January 1, 1986, to attend a school that closed before they could complete their program of study. The student must have been unable to complete the program because:

(Continued on the next page.)

- The school closed while they were enrolled,
- The school closed while they were on an approved leave of absence, or
- The student withdrew within 90 days of the school closing, and
- The student was unable to transfer credits or hours earned at the closed school.

TEACHER FORGIVENESS

Students may be eligible to have up to $5,000 of their loans forgiven. To qualify for teacher loan forgiveness all of the following criteria must be met:

- As of October 1, 1998, they must have had no outstanding balance on a FFELP loan, or have had no outstanding loan balance at the time they obtained a loan after that date.
- They must teach full-time at a designated school for five consecutive, complete academic years. At least one of the years of teaching service must be after the 1997-98 academic year.
- The loan for which they are requesting forgiveness must have been made before the end of their fifth year of qualifying teaching service.
- They must teach at an elementary or secondary school in a low-income school district that is listed in the *Annual Directory of Designated Low-Income Schools for Teacher Cancellation Benefits.*
- If teaching at an elementary school, the chief administrative officer of that school must certify that they demonstrate knowledge and teaching skills in reading, writing, mathematics, and other areas of the elementary school curriculum.
- If teaching at a secondary school, the chief administrative officer of that school must certify that they teach in a subject area that is relevant to their academic major.

To apply for teacher loan forgiveness or for more information about the program as it relates to FFELP, the student should contact their loan holder.

UNPAID REFUND

A portion of a student loan will be cancelled if:

- The student (or the student for whom a PLUS loan was borrowed) received funds for a loan disbursed, in whole or in part, on or after January 1, 1986, and
- The student withdrew from, was terminated from, or did not attend the school, and a refund of Title IV funds should have been made, but was not.

Note: A student may not apply for this cancellation if they are currently attending the school. In addition, if the school is currently open, they may not apply for this type of cancellation unless they have first contacted the school and attempted to resolve the issue.

TOTAL AND PERMANENT DISABILITY

Student loans will be cancelled if the student becomes totally and permanently disabled and is certified as such by a medical doctor or a doctor of osteopathy. The student loans will be turned over to the U.S. Department of Education (ED). Permanent cancellation of a student loan may require additional certification after three years by a physician and by ED.

DEATH CANCELLATION

Loans will be cancelled if the borrower (or the student for whom a PLUS loan was borrowed) dies. A certified death certificate is required.

CHILD CARE PROVIDER LOAN FORGIVENESS

A portion of a student loan may be forgiven if the borrower meets the following criteria:

- New applicant with loans received after October 7, 1998.
- Received an associate's or bachelor's degree in the field of early childhood education or childcare that was awarded from an institution of higher education after October 7, 1998.
- Worked full-time for at least two consecutive years as a child care provider in a facility that serves a low-income community.

Note: This is an annual application and forgiveness may be granted based on funds available on a national basis.

Questions concerning loan forgiveness should be directed to MGA's Customer Services Unit at extension 77009.

SUBSCRIPTION SERVICE SPECIFICS

Collapsing Disbursement Dates Service
for FFELP Schools

Q. Our school has occasionally certified loans that have multiple past disbursement dates and the loan funds arrive as one disbursement. Is there a way to receive these loan funds in two disbursements?

A. Yes, the Michigan Guaranty Agency has a Collapsing Disbursement Dates service to correct this issue. Currently, schools by default have their multiple past disbursements collapsed into a single disbursement. For those schools that wish to subscribe to this service, loans with multiple past disbursement dates can be disbursed in multiple disbursements on the same day, as opposed to a single disbursement.

If this service is an option your school would like to utilize, please feel free to contact MGA to learn more about this alternative. You may also request MGA to subscribe your institution for this service directly via email. Submit your request to Stacy Cardwell at cardwells@michigan.gov or call extension 36074.

THE HEROES ACT OF 2003

HR 1412, the Higher Education Relief Opportunities for Students (The HEROES Act) Act of 2003, was signed into law by President Bush on August 20, 2003.

The HEROES Act gives the Secretary of Education broad authority to waive or modify requirements or regulations pertaining to the Title IV student aid programs of the Higher Education Act. Individuals affected by this bill include active duty military personnel; those performing National Guard duty during a war; operation or national emergency people residing in a declared disaster area; and people who have suffered economic hardship as a direct result of a war, military operation, or emergency.

Specifically, The HEROES Act authorizes the Secretary to grant waivers that ensure that:

- Affected aid recipients are not penalized financially because they have been called to duty.
- Administrative requirements placed on affected recipients are minimized to avoid violation or default.
- Income calculations may be modified in light of the special circumstances.
- Institutions of higher education, lenders, guarantors, and others located in declared disaster areas may be granted temporary relief from reporting and due diligence, among other requirements.

For more information concerning the HEROES Act of 2003, link to the Federal Register Notice that was published on December 12, 2003, announcing waivers and modifications of statutory and regulatory provisions that are appropriate to assist individuals who are affected by various military actions or federally declared disasters. The Secretary of Education provides these waivers and modifications under the authority of section 2(a) of the Higher Education Relief Opportunities for Students (HEROES) Act of 2003.

If you have any questions or comments related to the Title IV loan programs, you may contact Ms. Gail McLarnon at 202-219-7048 or via email at Gail.McLarnon@ed.gov, or Mr. George Harris at 202-502-7521 or via email at GeorgeOPE.Harris@ed.gov.

GUIDANCE ON REQUESTING A LATE DISBURSEMENT AFTER 120 DAYS

ED's November 1, 2002, final rules [668.164(g)(4)(i)] extended the deadline to make late disbursements to 120 days after an institution's determination that the student withdrew or, for students who did not withdraw, 120 days after the student otherwise became ineligible. The regulation also was amended to state that, on an exception basis and with ED's approval, an institution may make a late disbursement after the applicable 120-day period if the reason the late disbursement was not made within the 120-day period was not the fault of the student.

ED has recently established a method by which schools can initiate requests for late disbursements beyond the 120-day limit. The school must fax a request to Policy Liaison and Implementation – Late Disbursement Request at 202-275-4552. The topic of the fax should be "Permission to make a disbursement after the 120-day late disbursement deadline."

(Continued on the next page.)

The request must include:

1. The school's name,
2. The contact person at the school, his/her phone number, and his/her email address,
3. The name of the student,
4. The student's Social Security Number (SSN),
5. The types and amounts of Title IV aid to be disbursed,
6. The Pell ID, if Pell funds are included, and
7. The reason the late disbursement was not made within the 120-day deadline.

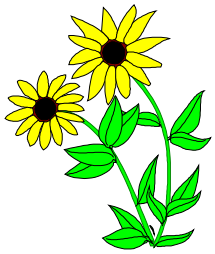
If the request is for permission to make a late disbursement of a FFELP loan, the request must include:

1. The type of loan (subsidized, unsubsidized, or PLUS),
2. The date the loan was certified,
3. The loan period, and
4. The amount of the disbursement.

Email requests are not permitted because ED considers email to be an insecure format for transmitting SSNs. This process will be included in the appropriate section of the 2004-05 *FSA Handbook*.

FINAL REGULATIONS ISSUED ON STUDENT LOAN INTEREST DEDUCTION

The U.S. Department of Treasury has released regulations designed to finalize how student loan providers are to report capitalized interest and origination fee payments on form 1098-E. According to the Treasury Department, "The final regulations issued today clarify which amounts qualify for the student loan interest deduction to ensure that students obtain the maximum deduction permitted under the law. These regulations also provide guidance to help lenders meet their reporting obligations." Industry experts are analyzing the complex set of new regulations to evaluate their impact. The regulations become effective on September 1, 2004. The final regulations are available in PDF format at: http://www.treas.gov/press/releases/reports/js1512td9125.pdf.



SCHOOL LIST UPDATES

The following change should be recorded by lenders on MGA's "Active Michigan School List" dated January 23, 2004. If you have any questions regarding this change, please contact Stacy Cardwell at extension 36074.

Contact Name Change

University of Detroit Mercy, Detroit, 002323-00 Karen Rainey, Loan Coordinator, is the main contact person. Karen's telephone number is 313-993-3343, and her email address is raineykm@udmercy.edu.

LENDER LIST UPDATES

School personnel should record the following actions on the "Participating Lender List" dated January 26, 2004. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact Pat Fromm at extension 36076.

Name Change

Deutsche Bank ELT Pinnacle Peak Solutions, 834051, changed its name to Deutsche Bank ELT NextStudent, Inc.

Novi Community Credit Union, 813136, changed its name to Hometown Community Credit Union.

ADDRESS CHANGE FOR NSLDS ONLINE REPORTING

The Web address for MGA lenders and servicers to submit their National Student Loan Data System (NSLDS) lender manifests has changed. The new address is https://cmwao.salliemae.com. Notification regarding the address change was posted on the previous Web site in April, but some lenders who report quarterly may not have received that notification.

Lenders and lender servicers should submit their NSLDS information to the new Web address beginning immediately. The old Web site and access to view the File Production Exchange screen at that site is no longer available.

If you have any questions regarding this matter, please contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.

Q&A

Q: Are there common examples of situations that occur with student loans and bankruptcies?

A: Yes. The following four scenarios are common examples of issues that involve bankruptcies.

Scenario #1

A school has processed a loan and receives a pending response file indicating that the loan is suspended due to errors.

- The school contacts MGA's Customer Services Unit to get clarification on why the loan did not guarantee.
- MGA informs the school that a bankruptcy claim was filed.
- The school then informs the borrower that their loan was not guaranteed and that a copy of the bankruptcy plan must be submitted to MGA.

Scenario #2

A school has not processed a loan because they noted on NSLDS that the borrower filed a bankruptcy.

- The school contacts MGA's Customer Services Unit to verify that a bankruptcy plan is on file.
- If the plan is on file with MGA, the school may process the student loan if the plan indicates eligibility for further financial aid.
- If the plan is not on file with MGA, the school informs the borrower that their loan cannot be processed and that a copy of the bankruptcy plan must be submitted to MGA.

Scenario #3

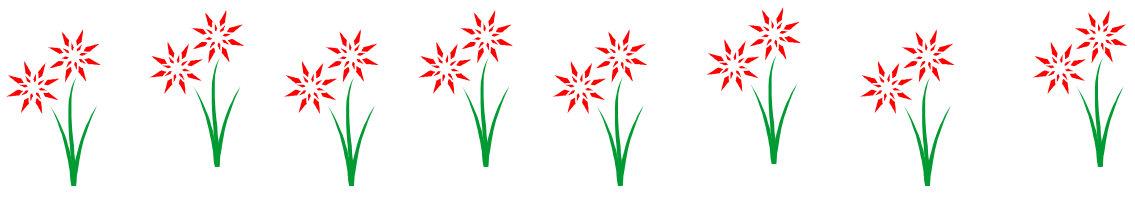
A school has made the first disbursement on a loan and is informed by the borrower prior to the second disbursement that they have filed for bankruptcy.

- The school may contact MGA's Customer Services Unit regarding the status of the bankruptcy.
- If a bankruptcy has been filed, MGA and the lender servicer will be notified. The lender may, but is not required to, make subsequent disbursements of the loan.
- If the lender chooses not to make remaining disbursements, the lender must notify the school, the borrower, and MGA of the disbursement cancellations.

Scenario #4

A school has processed a loan and receives a pending response file. If the school does not contact MGA, the following occurs:

- The loan will suspend because a bankruptcy claim is on file. The loan will be placed on the MGA "claim" log for approval or denial.
- If MGA has a bankruptcy plan on file, the loan will be approved or denied.
- If the loan is approved, it will be guaranteed up to the amount allowed in the plan. If the loan is denied, a "return loan letter" will be sent to the school.



Calendar of Upcoming Events

June 2004

22 WhizKid Webcast Training

27-30 MSFAA Summer Conference
Shanty Creek
Bellaire, Michigan

July 2004

5 MGA Office Closed

18-21 2004 NASFAA Conference
Hilton Minneapolis
Minneapolis, Minnesota

August 2004

10 Mapping Your Future Daytime Chat
Student Loan Default Prevention

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at extension 36944, or via email at petersonj@michigan.gov.

LOAN NOTES

June 2004

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Federal Family Education Loan Program

Variable Interest Rates

July 1, 2004 through June 30, 2005

New Stafford Loans

2.77% For new Stafford loans disbursed on or after July 1, 2004, during in-school, grace, or deferment periods only. The variable interest rate formula for new Stafford loans during these periods is the 91-day T-Bill rate (**1.07%**) plus **1.70%**.

3.37% The new rate for borrowers repaying Stafford loans disbursed on or after July 1, 1998, during the repayment period only. The variable interest rate formula for Stafford loans during repayment is the 91-day T-Bill (**1.07%**) plus **2.30%**.

Existing Stafford Loans

Existing variable rate Stafford loans will also convert to new rates on July 1, 2004, based on various formulas and cap rates calculated from the 91-day T-Bill. The formulas and cap rates vary depending on the original disbursement date of the loan. The new rates for all Stafford variable rate loans and their respective formulas and cap rates are published in a chart attached to this issue of *Educational Loan Notes*.

PLUS Loans

4.17% For new PLUS loans disbursed on or after July 1, 1998. The formula for new PLUS loans is the 91-day T-Bill rate (**1.07%**) plus **3.10%.**

Existing PLUS and SLS Variable Rates

N/A* For existing PLUS loans made July 1, 1994, through June 30, 1998

N/A* For existing PLUS or SLS loans made October 1, 1992, through June 30, 1994.

N/A* For existing PLUS or SLS loans made at a variable rate prior to October 1, 1992.

***Note: Some older PLUS and SLS loans have variable interest rates based on the weekly average of the one-year constant maturity Treasury yield for the last calendar week ending on or before June 26. As a result, the new rates for these loans will not be available until late June, at which time this letter and the enclosed charts will be updated and reissued.**

Federal Family Education Loan Program
Regular Variable Rate Stafford Loan Interest Rates
July 1, 2004, through June 30, 2005

Table 1

INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)						
Type of Borrower	**First Disbursement Made On or After**	**First Disbursement Made Before**	**91-Day Treasury Bill Rate**	**Additional Sum**	**Cap**	**Interest Rate for the Period of 7/01/04 - 6/30/05**
"New" Borrower	10/01/92	7/01/94	1.07%	3.1%	9%	**4.17%**
"New" Borrower	7/01/94 (for a period of enrollment ending prior to 7/01/94)	N/A	1.07%	3.1%	9%	**4.17%**
All Borrowers (regardless of prior borrowing)	7/01/94 (for a period of enrollment that includes or begins on or after 7/01/94)	7/01/95	1.07%	3.1%	8.25%	**4.17%**

Federal Family Education Loan Program
Regular Variable Rate Stafford Loan Interest Rates
July 1, 2004, through June 30, 2005

Table 2

INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)							
Type of Borrower	**First Disbursement Made On or After**	**First Disbursement Made Before**	**During Periods**	**91-Day Treasury Bill Rate**	**Additional Sum**	**Cap**	**Interest Rate for the Period of 7/01/04 - 6/30/05**
All Borrowers (regardless of prior borrowing)	7/01/95	7/01/98	In-school, grace and deferment periods.	1.07%	2.5%	8.25%	**3.57%**
			All other periods.	1.07%	3.1%	8.25%	**4.17%**
All Borrowers (regardless of prior borrowing)	7/01/98	7/01/06	In-school, grace and deferment periods.	1.07%	1.7%	8.25%	**2.77%**
			All other periods.	1.07%	2.3%	8.25%	**3.37%**

Federal Family Education Loan Program
"Converted" Variable Rate Stafford Loan Interest Rates
July 1, 2004, through June 30, 2005
(Loans That Were Subject to "Windfall Profits")

Table 3

INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)				
Type of Loan	**91- Day Treasury Bill Rate**	**Additional Sum**	**Cap**	**Interest Rate for the Period of 7/01/03 - 6/30/04**
8/10% Loans (made prior to 7/23/92)	1.07%	3.25%	10%	**4.32%**
7% Loans	1.07%	3.1%	7%	**4.17%**
8% Loans	1.07%	3.1%	8%	**4.17%**
9% Loans	1.07%	3.1%	9%	**4.17%**
8/10% Loans (made on or after 7/23/92)	1.07%	3.1%	10%	**4.17%**

Federal Family Education Loan Program
Variable Rate PLUS and SLS Loan Interest Rates
July 1, 2004, through June 30, 2005

Table 4

INTEREST RATE FORMULA (T-BILL RATE + ADDITIONAL SUM = INTEREST RATE)						
Type of Loan	**First Disbursement Made On or After**	**First Disbursement Made Before**	**91-Day Treasury Bill Rate**	**Additional Sum**	**Cap**	**Interest Rate for the Period of 7/01/04 - 6/30/05**
PLUS/SLS*	N/A	10/01/92	**	3.25%	12%	**
PLUS*	10/01/92	7/01/94	**	3.1%	10%	**
SLS	10/01/92	7/01/94	**	3.1%	11%	**
PLUS	7/01/94	7/01/98	**	3.1%	9%	**
PLUS*	7/01/98	7/01/06	1.07%	3.1%	9%	**4.17%**

***These loans will <u>not</u> be subject to special allowance payments during the four quarters ending 9/30/04, 12/31/04, 3/31/05, and 6/30/05.**

**** The rate for PLUS and SLS loans disbursed 10/01/92 through 6/30/98 is indexed to the average of the one-year constant maturity yield for the last calendar week ending on or before June 26, 2004, and is not available at this time. This chart will be updated in the July 2004 issue of *Educational Loan Notes.***